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C O N F I D E N T I A L SECTION 01 OF 03 SANTO DOMINGO 000797

SIPDIS

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DEPT. PASS TO USTR/S.CRONIN; DEPT. PASS TO AID/LAC

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TAGS: ENRG ECON EINV DR

SUBJECT: GODR COMMISSION TO INVESTIGATE ENERGY GENERATORS  
RAISES CONCERNS ABOUT POSSIBLE MILITARY INTERVENTION IN  
ELECTRICITY SECTOR

Classified By: DEPUTY CHIEF OF MISION LISA J. KUBISKE;  
REASON 1.5 (B & D)

**¶1.** (C) SUMMARY: The GODR appointed a six-member commission that includes Police General Pedro de Jesus Candelier and Secretary of Defense, Lieutenant General Jose Miguel Soto

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Jimenez, and senior GODR officials to reconcile GODR debt, determine fuel company fuel stocks, and review a sector study. In meetings with Emboffs, GODR officials emphasized that there is no intent on the part of the government to intervene in the troubled sector. Companies fear that the commission is intended to intimidate and will be a step toward military intervention in their operations. A local representative of the World Bank reported that members of the Bank's board and IMF representatives with whom he had spoken were concerned that the announcement of the commission could make IFI disbursements more difficult. Ambassador Hertell, in a February 6 telephone conversation, told Dominican Ambassador to Washington Hugo Giuliani, that the creation of the commission was misguided and sent the international community the wrong message. GODR-company talks continue. Finance Minister Rafael Calderon shared the GODR's hopes for allocation of IFI money to the electricity sector. END SUMMARY.

**¶2.** (SBU) The GODR and electricity generating companies are in a public dispute over debt the companies claim the GODR owes for subsidies and payment arrears following months of financial losses. Cash poor in the past few weeks, companies have felt it impossible to continue selling power at a loss. Moreover, they have, in many cases, quit importing fuel and lowered generating levels, creating growing blackouts.

**¶3.** (SBU) The latest development was a February 5 GODR announcement naming a commission made up of Finance Secretary Calderon, Electricity Superintendent George Reinoso, State Electricity Company (CDEEE) Administrator Cesar Sanchez, Commission for Public Enterprise Reform President Rafael Montilla, along with Police General Candelier and Armed Forces General Soto Jimenez. (Note: Candelier, associated with human rights abuses and extrajudicial killings by police that occurred while he was National Police Commander, and military head Jimenez were members of the now defunct exchange rate commission appointed in November that was widely viewed as a measure to intimidate exchange traders into lowering the peso exchange rate. End Note.)

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More problems?  
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**¶4.** (SBU) Local press (comment: not always accurate) reported that the commission was established to investigate why the generating companies are shut down and demanding payments for debt the GODR does not recognize. The appointment of the commission produced an immediate reaction from generating companies, which view it as an attempt by the government to intimidate them into reducing their debt claims and restarting the electricity plants.

**¶5.** (C) A local World Bank representative told econoff that World Bank was concerned and that the latest developments could make approval of the \$100 million electricity sector loan (anticipated February 12) more difficult. He explained that some board members had already expressed reservations about the loan even prior to the announcement of the commission. He reported similar assessments by International Monetary Fund representatives about the Standby Agreement scheduled for board consideration February 11. British Ambassador to the Dominican Republic also told the Embassy he was worried about the government's intentions in establishing the commission. He said that he intended to raise the matter with President Mejia on February 10.

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No Harm, No Foul  
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16. (SBU) In contrast, GODR and military officials asserted to Embassy officers that the press reports were inaccurate. Electricity Superintendent George Reinoso said that the commission was not intended to pressure the companies in any manner. He explained that it was established to reconcile GODR debt, determine fuel company fuel stocks, and review a sector study done last year by international accounting and business advisory group Grant Thornton. He said that the GODR had no intention of sending military personnel into power plants. This tracked with what a military source had told the Embassy's Defense Attaché.

17. (SBU) Secretary of Finance Rafael Calderon, also, told DCM late February 6 that the media had misinterpreted the purpose and the composition of the committee announced at the February 5 cabinet meeting. Calderon said that participants had discussed publishing the findings of the Grant Thornton audit, and the President decided that a new group headed by officials involved with the electricity sector would decide which parts could be made public. Calderon said that the IFIs were getting unduly alarmed about the presence of police and military officers on the commission and asserted that it was common in Latin America to call on senior military officers for such tasks. He emphasized to the DCM (and earlier in the day, to the press) that there was &absolutely no intention to intimidate anyone and not the slightest idea of militarizing the electricity sector. A representative from Virginia-based AES did report that Police General Candelier had contacted an AES employee the afternoon of February 6 to request a courtesy call at the company's Andres plant. Other than this, our sources report no action taken by the military or non-military members of the commission to date.

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But, Some Disagreement  
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18. (SBU) The GODR and the electricity generators are in negotiations over the division of the USD 20 million from the IDB social sector loan to be used for the electricity sector. Calderon emphasized the GODR's flexibility and said that the private sector positions have been progressively modified; he was awaiting a reply to the GODR's most recent offer.

19. (SBU) Calderon is emphatic and indignant concerning the differences over amounts owed to generators at Haina and Itabo. He maintained, as in the press, that the GODR's net debt to Haina is USD 15 million, and he dismissed Haina's claim of USD 40 million as an outrageous attempt to shift the various debts incurred by management to the GODR. After discussion, Haina has suggested that the GODR accept its estimate of the net debt as USD 20 million. If there is no agreement soon, the government will take the matter to arbitration. Similarly, he said, the GODR owes Itabo operators a net of USD 21 million or 22 million, while they are asking 30 million. Calderon asserted that Haina operators had borrowed abroad and had made a significant distribution of expected profits to shareholders, even though they were making paper losses; the GODR returned the pesos 44 million (about USD 80,000) check it received as a 50 percent shareholder. The companies allege that the government is seeking to divide the group by offering conditional payments for amounts less than is owed.

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What Next?  
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110. (SBU) For medium-term financing of the sector, the GODR hopes to raise the percentages of forthcoming loans to be directed to the electricity sector. In addition to the USD 20 million now awaiting distribution:

- the USD 100m World Bank loan for the social sector now includes USD 80 million for electricity; the GODR wishes to raise this to USD 90 million.

- - of USD 50 million remaining to come from the IDB, the GODR hopes to advance disbursement to March or April and to devote USD 15 million to the electricity sector.

111. (SBU) If these proposals are accepted there would be USD 105 million available between now and June, of which USD 40 million would go for fuel purchases and USD 65 million would be devoted to reducing arrears to participants in the sector. Calderon estimates that the USD 40 million for fuel, along with peso-denominated payments from clients and from the government would amount to approximately four billion pesos, sufficient for current needs with no increase in debt. This is the outline of the GODR's proposal to be made to the operators and to the World Bank.

112. (SBU) Calderon believes that IFI lending and the Paris

Club rescheduling should make sufficient foreign exchange available to drive the exchange rate for the dollar down from the current RD 55 to close to RD 40, a rate that will allow the sector to stabilize. He also reiterated that the GODR has absolutely no interest in purchasing the EdeEste distributor, which AES announced it intends to sell. The GODR intention is the opposite, to privatize greater percentages of EdeSur and EdeNorte than before.

¶13. (SBU) The Secretary was adamant in maintaining that the electricity generators were using the country's difficult situation as an opportunity to blackmail the GODR. He pointed to reports that Haina had sent employees home that day in case of a militarization effort. &We have been flexible, open, and cooperative. We have not threatened anyone. But the Government "cannot give in to blackmail."

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COMMENT:  
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¶14. (SBU) Though some agreement may be reached this week on the distribution of the first \$20 million, the GODR and generating companies remain very far apart on analysis of the sector's problems. A solution will probably require months of work, active World Bank intervention, and GODR political will.

¶15. (SBU) For now, appointment of this commission, likely intended as a warning to the companies and as a negotiating tactic by the GODR, appears to have been another miscalculation as the government desperately looks for ways to get electricity back on line. While officials have downplayed the significance of the appointment of this commission, it nevertheless has worried companies and the IFIs. Though a military/government commission may be nothing more than an action in keeping with local political style, it is not the confidence building measure the country desperately needs. END COMMENT.

HERTELL